

# **EXHIBIT 1**

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2013  
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to  
Commission File No. 001-7784

 **CenturyLink™**  
**CENTURYLINK, INC.**  
(Exact name of registrant as specified in its charter)

<p style="text-align: center;"><b>Louisiana</b> (State or other jurisdiction of incorporation or organization)</p> <p><b>100 CenturyLink Drive, Monroe, Louisiana</b> (Address of principal executive offices)</p>	<p><b>72-0651161</b> (I.R.S. Employer Identification No.)</p> <p><b>71203</b> (Zip Code)</p>
<p><b>(318) 388-9000</b> (Registrant's telephone number, including area code)</p>	
<p><b>Securities registered pursuant to Section 12(b) of the Act:</b></p>	

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$1.00	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: Stock Options**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒      Accelerated filer ☐      Non-accelerated filer ☐      Smaller reporting company ☐  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

On February 18, 2014, 577,955,329 shares of common stock were outstanding. The aggregate market value of the voting stock held by non-affiliates as of June 30, 2013 was \$21.3 billion.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Registrant's Proxy Statement to be furnished in connection with the 2014 annual meeting of shareholders are incorporated by reference in Part III of this Annual Report.

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*Unless the context requires otherwise, references in this annual report to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries, including SAVVIS, Inc. and its consolidated subsidiaries (referred to as "Savvis") for periods on or after July 15, 2011 and Qwest Communications International Inc. and its consolidated subsidiaries (referred to as "Qwest") for periods on or after April 1, 2011.*

## PART I

### ITEM 1. BUSINESS

#### Overview

We are an integrated communications company engaged primarily in providing an array of communications services to our residential, business, governmental and wholesale customers. Our communications services include local and long-distance, broadband, private line (including special access), Multi-Protocol Label Switching ("MPLS"), data integration, managed hosting (including cloud hosting), colocation, Ethernet, network access, public access, wireless, video services and other ancillary services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

Based on our approximately 13.0 million total access lines at December 31, 2013, we believe we are the third largest wireline telecommunications company in the United States. We operate almost 75% of our total access lines in portions of Colorado, Arizona, Washington, Florida, Minnesota, North Carolina, Oregon, Utah, Iowa, New Mexico, Missouri, and Nevada. We also provide local service in portions of Idaho, Ohio, Wisconsin, Virginia, Texas, Pennsylvania, Alabama, Montana, Nebraska, Indiana, Arkansas, Tennessee, Wyoming, New Jersey, South Dakota, North Dakota, Kansas, Louisiana, Michigan, South Carolina, Illinois, Georgia, Mississippi, Oklahoma, and California. In the portion of these 37 states where we have access lines, which we refer to as our local service area, we are the incumbent local telephone company.

At December 31, 2013 we served approximately 6.0 million broadband subscribers. We also operate 55 data centers throughout North America, Europe and Asia. We define a data center as any facility where we market, sell and deliver either colocation services, multi-tenant managed services, or both.

We were incorporated under the laws of the State of Louisiana in 1968. Our principal executive offices are located at 100 CenturyLink Drive, Monroe, Louisiana 71203 and our telephone number is (318) 388-9000.

For a discussion of certain risks applicable to our business, see "Risk Factors" in Item 1A of this annual report. The summary financial information in this section should be read in conjunction with, and is qualified by reference to, our consolidated financial statements and notes thereto in Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this annual report.

#### Acquisitions

##### *Acquisition of Savvis*

On July 15, 2011, we acquired all of the outstanding common stock of Savvis, a provider of cloud hosting, managed hosting, colocation and network services in domestic and international markets. We believe this acquisition enhanced our ability to provide information technology services to our existing business customers and strengthened our ability to attract new business customers. The aggregate consideration paid for Savvis was \$2.382 billion (determined in the manner described in Note 2-Acquisitions to our consolidated financial statements in Item 8 of this annual report), which consisted of converting each share of Savvis common stock outstanding immediately prior to the acquisition into \$30 per share in cash and 0.2479 shares of CenturyLink common stock. Upon completing the acquisition, we also paid \$547 million to retire certain pre-existing Savvis debt and accrued interest.

[Table of Contents](#)**Acquisition of Qwest**

On April 1, 2011, we acquired all of the outstanding common stock of Qwest, a provider of data, broadband, video and voice services nationwide and globally. We entered into this acquisition, among other things, to realize certain strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks. As of the acquisition date, Qwest served approximately 9.0 million access lines and approximately 3.0 million broadband subscribers across 14 states. The aggregate consideration paid for Qwest was \$12.273 billion (determined in the manner described in Note 2-Acquisitions to our consolidated financial statements in Item 8 of this annual report), which consisted of converting each share of Qwest common stock outstanding immediately prior to the acquisition into 0.1664 shares of CenturyLink common stock, with cash paid in lieu of fractional shares. We assumed approximately \$12.7 billion of long-term debt in connection with our acquisition of Qwest.

**Other Acquisitions**

During 2013, we acquired two technology companies for \$160 million in cash to expand and strengthen the product offerings of our data hosting operations. For additional information, see Note 2-Acquisitions to our consolidated financial statements in Item 8 of this annual report.

**Impact of Recent Acquisitions**

Prior to our acquisition of Embarq Corporation ("Embarq") in 2009, we provided traditional voice and Internet services mainly to residential customers in predominantly rural areas and small to mid-size cities in 25 states. As a result of our 2009 Embarq acquisition and 2011 Qwest and Savvis acquisitions, we now (i) serve residential and business customers in several major U.S. cities, including Denver, Colorado, Phoenix, Arizona, Minneapolis - St. Paul, Minnesota, Seattle, Washington, Portland, Oregon, Las Vegas, Nevada and Salt Lake City, Utah and (ii) conduct international operations in several locations throughout Europe, Asia and Canada. Although almost a quarter of the total square miles located within the local service area of our U.S. wireline operations is rural, over 95% of our residential customers live in urban areas. In addition, the portion of our aggregate revenues derived from business, governmental and wholesale consumers has increased substantially since 2009. For more information, see "Risk Factors-Risks Relating to our Recent Acquisitions" in Item 1A of this annual report.

**Potential Acquisitions**

We regularly evaluate the possibility of acquiring additional assets in exchange for cash, securities or other properties, and at any given time may be engaged in discussions or negotiations regarding additional acquisitions. We generally do not announce our acquisitions or dispositions until we have entered into a preliminary or definitive agreement.

**References to Acquired Businesses**

In the discussion that follows, we refer to the incremental business activities that we now operate as a result of the Savvis acquisition and the Qwest acquisition as "Legacy Savvis" and "Legacy Qwest", respectively. References to "Legacy CenturyLink", when used in reference to a comparison of our consolidated results for the year ended December 31, 2011, mean the business we operated prior to the Qwest and Savvis acquisitions.

**Financial and Operational Highlights**

The following table summarizes the results of our consolidated operations. Our operating results include the operations of Savvis for periods after July 15, 2011 and Qwest for periods after April 1, 2011.

	Years Ended December 31,		
	2013	2012	2011
	(Dollars in millions)		
Statements of operations summary data:			
Operating revenues	\$ 18,095	18,376	15,351
Operating expenses	16,642	15,663	13,326
Operating income	\$ 1,453	2,713	2,025
Net (loss) income	\$ (239)	777	573

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- *Wholesale.* Consists generally of providing strategic and legacy products and services to other communications providers. Our strategic products and services offered to these customers are mainly private line (including special access), dedicated internet access, digital subscriber line ("DSL") and MPLS. Our legacy services offered to these customers include the resale of our services, the sale of unbundled network elements ("UNEs") which allow our wholesale customers to use our network or a combination of our network and their own networks to provide voice and data services to their customers, long-distance and switched access services and other services, including billing and collection, pole rental, floor space and database services; and
- *Data hosting.* Consists primarily of providing colocation, managed hosting and cloud hosting services to commercial, enterprise, global and governmental customers.

The following tables shows the composition of our revenues by segment under our current segment categorization as of December 31, 2013, 2012 and 2011.

	Years Ended December 31,			Percent Change	
	2013	2012	2011	2013 vs 2012	2012 vs 2011
Percentage of revenue:					
Consumer	33%	34%	35%	(1)%	(1)%
Business	34%	33%	34%	1%	(1)%
Wholesale	20%	20%	22%	-%	(2)%
Data hosting	7%	7%	4%	-%	3%
Other operating revenues	6%	6%	5%	-%	1%
Total	100%	100%	100%		

For additional information on our segment data, including information on our certain centrally-managed assets and expenses not reflected in our segment reports, see Note 13-Segment Information to our consolidated financial statements in Item 8 of this annual report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this annual report.

### Products and Services

Our products and services include local and long-distance, broadband, private line (including special access, which we market to wholesale and business customers), MLPS, data integration, managed hosting (including cloud hosting), colocation, Ethernet, network access, public access, wireless, video services and other ancillary services.

We offer our customers the ability to bundle together several products and services. For example, we offer integrated and unlimited local and long-distance services. Our customers can also bundle two or more services such as broadband, video (including DIRECTV through our strategic partnership), voice and Verizon Wireless (through our strategic partnership) services. We believe our customers value the convenience and price discounts associated with receiving multiple services through a single company.

Most of our products and services are provided using our telecommunications network, which consists of voice and data switches, copper cables, fiber-optic cables and other equipment. Our network serves approximately 13.0 million access lines and forms a portion of the public switched telephone network, or PSTN. For more information on our network, see "Business-Network Architecture" below.

Described below are our key products and services.

### Strategic Services

We primarily focus our marketing and sales efforts on our "strategic" services, which are those services for which demand remains strong and that we believe are most important to our future performance. Generally speaking, our strategic services enable our customers to access the Internet, connect to private networks and transmit data, and enhance the security, reliability and efficiency of our customers' communications. Our strategic services are comprised of the following:

- *Broadband.* Our broadband services allow customers to connect to the Internet through their existing telephone lines and fiber-optic cables at high speeds. Substantially all of our broadband subscribers are located within the local service area of our wireline telephone operations;

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- *WAN.* We offer wide area network ("WAN") services, which allow a local communications network to link to networks in remote locations; and
- *Switched access services.* As a part of our wholesale segment operations, we provide various forms of switched access services to wireline and wireless service providers for the use of our facilities to originate and terminate their interstate and intrastate voice transmissions.

**Data Integration**

Data integration includes the sale of telecommunications equipment located on customers' premises and related professional services. These services include network management, installation and maintenance of data equipment and the building of proprietary fiber-optic broadband networks for our governmental and business customers.

**Other Revenues**

We also generate other operating revenues from Universal Service Fund ("USF") revenues and surcharges and the leasing and subleasing of space in our office buildings, warehouses and other properties. The majority of our real estate properties are located in the local service area of our wireline operations.

**Additional Information**

From time to time, we also make investments in other communications or technology companies.

For further information on regulatory, technological and competitive changes that could impact our revenues, see "Regulation" and "Competition" under this Item 1 below and "Risk Factors" under Item 1A below. For more information on the financial contributions of our various services, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this annual report.

**Patents, Trade Names, Trademarks and Copyrights**

Either directly or through our subsidiaries, we have rights in various patents, trade names, trademarks, copyrights and other intellectual property necessary to conduct our business, such as our CenturyLink™ and Prism™ brand names. Our services often use the intellectual property of others, including licensed software. We also occasionally license our intellectual property to others.

We periodically receive offers from third parties to purchase or obtain licenses for patents and other intellectual property rights in exchange for royalties or other payments. We also periodically receive notices, or are named in lawsuits, alleging that our products or services infringe on patents or other intellectual property rights of third parties. In certain instances, these matters can potentially adversely impact our operations, operating results or financial position. For additional information, see "Risk Factors-Risks Impacting our Business" in Item 1A of this annual report, and "Legal Proceedings-Other Matters" in Item 3 of this annual report.

**Sales and Marketing**

We maintain local offices in most of the larger population centers within our local service area. These offices provide sales and customer support services in the community. We also rely on our call center personnel to promote sales of services that meet the needs of our customers. Our strategy is to enhance our communications services by offering a comprehensive bundle of services and deploying new technologies to further enhance customer loyalty.

We conduct most of our operations under the brand name "CenturyLink." Our satellite television service is offered on a co-branded basis under the "DIRECTV" name. Our switched digital television service offering is branded under the name "Prism™." The wireless service that we offer under our agency agreement with Verizon Wireless is marketed under the "Verizon Wireless" brand name. Since January 2014, we have marketed certain data hosting, IT and other services furnished through our data hosting operations under the "CenturyLink Technology Solutions" brand name.

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Our approach to our residential customers emphasizes customer-oriented sales, marketing and service with a local presence. We market our products and services primarily through direct sales representatives, inbound call centers, local retail stores, telemarketing and third parties. We support our distribution with direct mail, bill inserts, newspaper and television advertising, website promotions, public relations activities and sponsorship of community events and sports venues.

Our approach to our business and governmental customers includes a commitment to deliver communications and network products and services that meet existing and future business needs through bundles of services and integrated service offerings. Our focus is to be a comprehensive communications solution for our small office, mid-sized and select enterprise business and governmental customers. We market our products and services primarily through direct sales representatives, inbound call centers, telemarketing and third parties. We support our distribution with direct mail, bill inserts, newspaper and television advertising, website promotions, telemarketing and third parties.

Our approach to our wholesale customers includes a commitment to deliver communications solutions that meet existing and future needs of national network telecommunications providers through bandwidth growth and quality of services.

Our data hosting operations utilize a solution-based selling approach. By working directly with potential and existing clients, we are able to understand our clients' IT infrastructure and long-term goals. We also market through indirect channels, including collaborations with existing clients and technology providers, telecommunications companies and system integrators.

### **Network Architecture**

Most of our products and services are provided using our telecommunications network, which consists of voice and data switches, copper cables, fiber-optic cables and other equipment. Our local exchange carrier networks also include central offices and remote sites, all with advanced digital switches and operating with licensed software. Our fiber-optic cable is the primary transport technology between our central offices and interconnection points with other incumbent carriers. As of December 31, 2013, we maintained over 1.03 million miles of copper plant and approximately 168 thousand miles of fiber-optic plant in our local exchange networks.

Most of our long distance service is provided directly through CenturyLink's own switches and network equipment, with the balance being provided through reselling arrangements with other long distance carriers. All of our satellite television and wireless voice service is provided by other carriers under agency agreements.

We continue to enhance and expand our network by deploying broadband-enabled technologies to provide additional capacity to our customers. Rapid and significant changes in technology are expected to continue in the telecommunications industry. Our future success will depend, in part, on our ability to anticipate and adapt to changes in customer demands and technology. In particular, we anticipate that continued increases in broadband usage by our customers will require us to make significant capital expenditures to increase network capacity or to implement network management practices to alleviate network capacity shortages, either of which could adversely impact our results of operation and financial condition. For additional information, see "Risk Factors", generally, in Item 1A of this annual report, and, in particular, "Risk Factors-Risks Affecting Our Business-Increases in broadband usage may cause network capacity limitations, resulting in service disruptions, reduced capacity or slower transmission speeds for our customers."

Similarly, we continue to take steps to simplify and modernize our network, which is comprised of our legacy network combined with the network of several companies we have acquired in the past. To attain our objectives, we plan to continue to undertake several complex projects that we expect will be costly and take several years to complete.

For more information on our properties, see Item 2 of this annual report.

### **Regulation**

We are subject to significant regulation by the Federal Communications Commission ("FCC"), which regulates interstate communications, and state utility commissions, which regulate intrastate communications. These agencies (i) issue rules to protect consumers and promote competition, (ii) set the rates that telecommunication companies charge each other for exchanging traffic, and (iii) have traditionally established USF to support the provision of services to high-cost areas. In most states, local voice service, switched and special access services and interconnection services are subject to price regulation, although the extent of regulation varies by type of service and geographic region. In addition, we are required to maintain licenses with the FCC and with state utility commissions. Laws and regulations in many states restrict the manner in which a licensed entity can interact with affiliates, transfer assets, issue debt and engage in other business activities, and many acquisitions and divestitures require approval by the FCC and some state commissions.



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Our telephone operating companies are considered incumbent local exchange carriers ("ILECs"). Historically, ILECs, like our traditional telephone operating companies, operated as regulated monopolies having the exclusive right and responsibility to provide local telephone services in their franchised service territories. As we discuss in greater detail below, passage of the Telecommunications Act of 1996, coupled with state legislative and regulatory initiatives and technological change, fundamentally altered the telephone industry by generally reducing the regulation of ILECs and creating a substantial increase in the number of competitors. The following description discusses some of the major industry regulations that affect our traditional telephone operations, but numerous other regulations not discussed below could also impact us. Some legislation and regulations are currently the subject of judicial, legislative and administrative proceedings which could substantially change the manner in which the telecommunications industry operates and the amount of revenues we receive for our services. Neither the outcome of these proceedings, nor their potential impact on us, can be predicted at this time. For additional information, see "Risk Factors" in Item 1A of this annual report.

### ***Federal Regulation***

#### **General**

We are required to comply with the Communications Act of 1934, which requires us to offer services at just and reasonable rates and on non-discriminatory terms, as well as the Telecommunications Act of 1996, which amended the Communications Act of 1934 primarily to promote competition.

The FCC regulates interstate services we provide, including the special access charges we bill for wholesale network transmission and the interstate access charges that we bill to long-distance companies and other communications companies in connection with the origination and termination of interstate phone calls. Additionally, the FCC regulates a number of aspects of our business related to privacy, homeland security and network infrastructure, including access to and use of local telephone numbers. The FCC has responsibility for maintaining and administering the federal USF, which provides substantial support for maintaining networks in high-cost areas, as well as supporting service to low-income households, schools and libraries, and rural health care providers. Like other communications network operators, ILECs must obtain FCC approval to use certain radio frequencies, or to transfer control of any such licenses. The FCC retains the right to revoke these licenses if a carrier materially violates relevant legal requirements.

In recent years, our operations and those of other telecommunications carriers have been further impacted by legislation and regulation imposing additional obligations on us, particularly with regards to providing broadband service, bolstering homeland security, increasing disaster recovery requirements, minimizing environmental impacts and enhancing privacy. These laws include the Communications Assistance for Law Enforcement Act, and laws governing local telephone number portability and customer proprietary network information requirements. These laws and regulations may cause us to incur additional costs and could impact our ability to compete effectively.

In December 2012, the FCC initiated a special access proceeding and has requested data, information and documents to allow it to conduct a comprehensive evaluation of competition in the special access market. The ultimate impact of this proceeding on the Company is currently unknown. However, if the FCC were to adopt significant changes in regulations affecting special access services, this could adversely impact our operations or financial results.

#### **Intercarrier Compensation**

For decades, the FCC has regularly (i) considered various intercarrier compensation reforms, generally with a goal to create a uniform mechanism to be used by the entire telecommunications industry for payments between carriers originating, terminating, or carrying telecommunications traffic, and (ii) administrated the federal USF.

In October 2011, the FCC adopted the Connect America and Intercarrier Compensation Reform order ("CAF order"), intended to reform the existing regulatory regime to recognize ongoing shifts to new technologies, including VoIP, and gradually re-direct universal service funding to foster nationwide broadband coverage. The CAF order provides for a multi-year transition over the next decade as terminating intercarrier compensation charges are reduced, universal service funding is explicitly targeted to broadband deployment, and line charges paid by end user customers are gradually increased. We anticipate that these changes will substantially increase the pace of reductions in the amount of switched access revenues in our wholesale segment, while creating opportunities for increases in federal USF and retail revenue streams.

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In late 2011, numerous parties filed a petition for reconsideration with the FCC seeking numerous revisions to the order. In January 2012, we joined more than two dozen parties in challenging certain aspects of the order by filing a separate appeal that was heard by the United States Tenth Circuit Court of Appeals in November 2013, and we are awaiting the Court's decision. Future judicial challenges to the CAF order are also possible, which could alter or delay the FCC's proposed changes. In addition, based on the outcome of the FCC proceedings, various state commissions may consider changes to their universal service funds or intrastate access rates. Moreover, rulemaking designed to implement the order is not complete, and several FCC proceedings relating to the order remain pending. For these and other reasons, we cannot predict the ultimate impact of these proceedings at this time.

We received approximately \$534 million, \$543 million and \$510 million of revenue from federal and state universal service programs for the years ended December 31, 2013, 2012 and 2011, respectively. Such amounts represented approximately 3.0%, 3.0% and 3.3% of our 2013, 2012 and 2011 total operating revenues, respectively.

### **Broadband Deployment**

The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") includes certain broadband initiatives that are intended to accelerate broadband deployment across the United States. The Recovery Act approved \$7.2 billion in funding for broadband stimulus projects across the United States to be administered by two governmental agencies. The programs provide grants and loans to applicants for construction of certain broadband infrastructure, provision of certain broadband services, and support of certain broadband adoption initiatives. This program has attracted a wide range of applicants including states, municipalities, start-up companies and consortiums. The participation of other parties in these programs has increased competition in selected areas, which may increase our marketing costs and decrease our revenues in those areas. This trend may intensify if program participation increases.

### **State Regulation**

In recent years, most states have reduced their regulation of ILECs. Nonetheless, state regulatory commissions generally continue to regulate local service rates, intrastate access charges, state universal service funds and in some cases service quality. While several state commissions continue to regulate pricing through "rate of return" regulation that focused on authorized levels of earnings by ILECs, we are generally regulated under various forms of alternative regulation that typically limit our ability to increase rates for basic local voice service, but relieve us from the requirement to meet certain earnings tests. In a few states, we have recently gained pricing freedom for the majority of retail services other than stand-alone basic consumer voice service. In most of the states in which we operate, we have gained pricing flexibility for certain enhanced calling services, such as caller identification and for bundled services that also include local voice service.

Under state law, our telephone operating subsidiaries are typically governed by laws and regulations that (i) regulate the purchase and sale of ILECs, (ii) prescribe certain reporting requirements, (iii) require ILECs to provide service under publicly-filed tariffs setting forth the terms, conditions and prices of regulated services, (iv) limit ILECs' ability to borrow and pledge their assets, (v) regulate transactions between ILECs and their affiliates and (vi) impose various other service standards.

Unlike many of our competitors, as an ILEC we generally face "carrier of last resort" obligations which include an ongoing requirement to provide service to all prospective and current customers in our service area who request service and are willing to pay rates prescribed in our tariffs. In certain situations, this may constitute a competitive disadvantage to us if competitors can choose to focus on low-cost profitable customers and withhold service from high-cost unprofitable customers. In addition, strict adherence to carrier of last resort requirements may force us to construct facilities with a low likelihood of positive economic return.

We operate in states where traditional cost recovery mechanisms, including rate structures, are under evaluation or have been modified. As laws and regulations change, there can be no assurance that these mechanisms will continue to provide us with any cost recovery.

For several years, we have faced various carrier complaints, legislation or other investigations regarding our intrastate switched access rates in several of our states. On October 27, 2011, the FCC adopted an order that, among other things, preempted state regulatory commissions' jurisdiction over all terminating access charges, including intrastate access charges that have historically been subject to exclusive state jurisdiction. Excluding the rate implications contemplated on a prospective basis by this FCC order, we will continue to vigorously defend and seek to collect our intrastate switched access revenue subject to outstanding disputes. The outcomes of these disputes cannot be determined at this time. If we are required to reduce our intrastate switched access rates as a result of any of these disputes or state initiatives, we will seek to recover displaced switched access revenues from state universal service funds or other services. However, the amount of such recovery, particularly from residential customers, is not assured.

[Table of Contents](#)***Other Regulations***

Certain of our telecommunications and data hosting services conducted in foreign countries are or may become subject to various foreign laws, including those regulating the protection and retention of data. Some of the legal requirements governing our foreign operations conflict with those governing our domestic operations, which raises our compliance costs and regulatory risks. For additional information, see "Risk Factors-Risks Relating to Recent Acquisitions-Our acquisitions of Qwest and Savvis have increased our exposure to the risks of operating internationally."

**Competition*****General***

We compete in a rapidly evolving and highly competitive market and we expect intense competition to continue. We compete with cable and satellite companies, wireless providers, national telecommunications providers (such as AT&T, Inc. and Verizon Communications Inc.) and a variety of other competitors. Technological advances and regulatory and legislative changes have increased opportunities for a wide range of alternative communications service providers, which in turn have increased competitive pressures on our business. These alternate providers often face fewer regulations and have lower cost structures than we do. In addition, the telecommunications industry has experienced substantial consolidation over the past decade and some of our competitors in one or more lines of our business are generally larger, have stronger brand names, have more financial and business resources and have broader service offerings than we currently do.

Over the past decade, fundamental technological, regulatory and legislative changes have significantly impacted the communications industry, and we expect these changes will continue. Primarily as a result of regulatory and technological changes, competition has been introduced and encouraged in each sector of the communications industry in recent years. As a result, we increasingly face competition from other communication service providers, as further described below.

Wireless telephone services increasingly constitute a significant source of competition with our ILEC services. As a result, some customers have chosen to completely forego use of traditional wireline phone service and instead rely solely on wireless service for voice services. We anticipate this trend will continue, particularly as wireless service providers continue to expand their coverage areas, improve the quality of their services and offer enhanced new services. Substantially all of our access line customers are currently capable of receiving wireless services from at least one competitive service provider. Technological and regulatory developments in wireless services, personal communications services, digital microwave, satellite, coaxial cable, fiber-optics, local multipoint distribution services, WiFi, and other wired and wireless technologies are expected to further permit the development of alternatives to traditional landline voice services. Moreover, the growing prevalence of electronic mail, text messaging, social networking and similar digital non-voice communications services continues to reduce the demand for traditional landline voice services.

The Telecommunications Act of 1996, which obligates ILECs to permit competitors to interconnect their facilities to the ILEC's network and to take various other steps that are designed to promote competition, imposes several duties on an ILEC if it receives a specific request from another entity which seeks to connect with or provide services using the ILEC's network. In addition, each ILEC is obligated to (i) negotiate interconnection agreements in good faith, (ii) provide nondiscriminatory "unbundled" access to all aspects of the ILEC's network, (iii) offer resale of its telecommunications services at wholesale rates and (iv) permit competitors, on terms and conditions (including rates) that are just, reasonable and nondiscriminatory, to colocate their physical plant on the ILEC's property, or provide virtual colocation if physical colocation is not practicable. Current FCC rules require ILECs to lease a network element only in those situations where competing carriers genuinely would be impaired without access to such network elements, and where the unbundling would not interfere with the development of facilities-based competition.

As a result of these regulatory, consumer and technological developments, ILECs also face competition from competitive local exchange carriers, or CLECs, particularly in densely populated areas. CLECs provide competing services through reselling the ILECs' local services, through use of the ILECs' unbundled network elements or through their own facilities.

Technological developments have led to the development of new products and services that have reduced the demand for our traditional services, as noted above, or that compete with traditional ILEC services. Technological improvements have enabled cable television companies to provide traditional circuit-switched telephone service over their cable networks, and several national cable companies have aggressively pursued this opportunity. Similarly, companies providing VoIP services provide voice communication services over the Internet which compete with our traditional telephone service and our own VoIP services. In addition, demand for our broadband services could be adversely affected by advanced wireless data transmission technologies being developed by wireless providers and by certain technologies permitting cable companies and other competitors to deliver faster broadband speeds than ours. Rapid changes in technology are also increasing the competitiveness of the information technology services industry.

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In connection with filing this annual report, our chief executive officer and chief financial officer made the certifications regarding our financial disclosures required under the Sarbanes-Oxley Act of 2002, and its related regulations. In addition, during 2013, our chief executive officer certified to the New York Stock Exchange that he was unaware of any violations by us of the New York Stock Exchange's corporate governance listing standards.

### Special Note Regarding Forward-Looking Statements and Related Matters

This annual report and other documents filed by us under the federal securities law include, and future oral or written statements or press releases by us and our management may include, forward-looking statements about our business, financial condition, operating results and prospects. These statements include, among others:

- statements concerning the benefits that we expect will result from our operations, investments, transactions and other activities, such as increased revenue or decreased expenditures;
- statements about our anticipated future operating and financial performance, financial position and liquidity, tax position, contingent liabilities, growth opportunities and growth rates, acquisition and divestiture opportunities, business prospects, regulatory and competitive outlook, investment and expenditure plans, dividend and stock repurchase plans, capital allocation plans, investment results, financing alternatives and sources, and pricing plans; and
- other similar statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts, many of which are highlighted by words such as “may,” “would,” “could,” “should,” “plan,” “believes,” “expects,” “anticipates,” “estimates,” “projects,” “intends,” “likely,” “seeks,” “hopes,” or variations or similar expressions.

These forward-looking statements are based upon our judgment and assumptions as of the date such statements are made concerning future developments and events, many of which are beyond our control. These forward-looking statements, and the assumptions upon which they are based, are inherently speculative and are subject to a number of risks and uncertainties. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us in those statements if one or more of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to:

- the timing, success and overall effects of competition from a wide variety of competitive providers;
- the risks inherent in rapid technological change, including product displacement;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, access charges, universal service, broadband deployment, data protection and net neutrality;
- our ability to effectively adjust to changes in the communications industry, and changes in our markets, product mix and network caused by our recent acquisitions;
- our ability to successfully integrate recently-acquired operations into our incumbent operations, including the possibility that the anticipated benefits from our recent acquisitions cannot be fully realized in a timely manner or at all;
- our ability to effectively manage our expansion opportunities, including retaining and hiring key personnel;
- possible changes in the demand for, or pricing of, our products and services, including our ability to effectively respond to increased demand for high-speed broadband service;
- our ability to successfully introduce new product or service offerings on a timely and cost-effective basis;
- the adverse impact on our business and network from possible equipment failures, security breaches or similar attacks on our network;
- our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- our ability to use our net operating loss carryforwards in projected amounts;
- our continued access to credit markets on favorable terms;
- our ability to collect our receivables from financially troubled communications companies;

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- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;
- any adverse developments in legal or regulatory proceedings involving us;
- changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, including those caused by changes in our cash requirements, capital expenditure needs, debt obligations, pension funding requirements, cash flows, or financial position, or other similar changes;
- the effects of adverse weather;
- other risks referenced in this annual report or other of our filings with the SEC; and
- the effects of more general factors such as changes in interest rates, in tax laws, in accounting policies or practices, in operating, medical, pension or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy.

These and other uncertainties related to our business and our recent acquisitions are described in greater detail in Item 1A of this annual report, which is subject to updating and supplementing by our subsequent SEC reports.

These factors should be considered in connection with any written or oral forward-looking statements that we or persons acting on our behalf may issue. Additional factors or risks that we currently deem immaterial or that are not presently known to us could also cause our actual results to differ materially from our expected results. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements. We undertake no obligation to update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of such forward-looking statement, and is based upon, among other things, the existing regulatory and technological environment, industry and competitive conditions, and economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans (including our dividend or stock repurchase plans) at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

Investors should also be aware that while we do, at various times, communicate with securities analysts, it is against our policy to disclose to them selectively any material non-public information or other confidential information. Accordingly, investors should not assume that we agree with any statement or report issued by an analyst irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

Unless otherwise indicated, information contained in this annual report and other documents filed by us under the federal securities laws concerning our views and expectations regarding the communications industry are based on estimates made by us using data from industry sources, and on assumptions made by us based on our management's knowledge and experience in the markets in which we operate and the communications industry generally. You should be aware that we have not independently verified data from industry or other third-party sources and cannot guarantee its accuracy or completeness.

## ITEM 1A. RISK FACTORS

The following discussion of "risk factors" identifies the most significant risks or uncertainties that could (i) materially and adversely affect our business, financial condition, results of operations, liquidity or prospects or (ii) cause our actual results to differ materially from our anticipated results or other expectations. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this annual report. Please note that the following discussion is not intended to comprehensively list all risks or uncertainties faced by us. Our operations or actual results could also be similarly impacted by additional risks and uncertainties that are not currently known to us, that we currently deem to be immaterial or that are not specific to us, such as general economic conditions.

[Table of Contents](#)**Risks Affecting Our Business**

***Increasing competition, including product substitution, continues to cause us to lose access lines, which has adversely affected and is expected to continue to adversely affect our operating results and financial condition.***

Regulatory and other developments over the past several years have caused us to continue to lose access lines and to experience increased competitive pressures impacting each of our business segments, and we expect these trends will continue. In addition to competition from larger national telecommunications providers, we are facing increasing competition from a variety of other sources, including cable and satellite companies, wireless providers, information technology companies, broadband providers, device providers, resellers, sales agents and facilities-based providers using their own networks as well as those leasing parts of our network.

Some of our current and potential competitors (i) offer products or services that are substitutes for our traditional voice services, including wireless voice and non-voice communication services, (ii) offer a more comprehensive range of communications products and services, (iii) have market presence, engineering and technical capabilities, and financial and other resources greater than ours, (iv) own larger or more diverse networks with greater transmission capacity or other advantages, (v) conduct operations or raise capital at a lower cost than us, (vi) are subject to less regulation, (vii) offer services nationally or internationally to a larger geographic area or larger base of customers, (viii) offer greater online content or (ix) have substantially stronger brand names. Consequently, these competitors may be better equipped to provide more attractive offerings, to charge lower prices for their products and services, to develop and expand their communications and network infrastructures more quickly, to adapt more swiftly to new or emerging technologies and changes in customer requirements, to devote greater resources to the marketing and sale of their products and services, or to provide more comprehensive customer service.

Competition could adversely impact us in several ways, including (i) the loss of customers and market share, (ii) the possibility of customers reducing their usage of our services or shifting to less profitable services, (iii) reduced traffic on our networks, (iv) our need to expend substantial time or money on new capital improvement projects, (v) our need to lower prices or increase marketing expenses to remain competitive and (vi) our inability to diversify by successfully offering new products or services.

We are continually taking steps to respond to these competitive pressures, but these efforts may not be successful. Our operating results and financial condition would be adversely affected if these initiatives are unsuccessful or insufficient and if we otherwise are unable to sufficiently stem or offset our continuing access line losses and our revenue declines without corresponding cost reductions. If this occurred, our ability to service debt and pay other obligations would also be adversely affected.

***Rapid technological changes could require substantial expenditure of financial and other resources in excess of contemplated levels, and any inability to respond to those changes could reduce our market share and adversely affect our operating results and financial condition.***

The communications industry is experiencing significant technological changes, which in general are enhancing non-voice communications and enabling a broader array of companies to offer services competitive with ours. Many of those technological changes are (i) displacing or reducing demand for our traditional voice services, (ii) enabling the development of competitive products or services, or (iii) enabling our current customers to reduce or bypass use of our networks. Similarly, demand for our broadband services could be adversely affected by advanced wireless data transmission technologies being developed by wireless providers and by certain technologies permitting cable companies and other competitors to deliver faster broadband speeds than ours. Rapid changes in technology are also increasing the competitiveness of the information technology services industry.

We may not be able to accurately predict technological trends or the success of newly-offered services. Further technological change could require us to expend capital or other resources in excess of currently contemplated levels, or to forego the development or provision of products or services that others can provide more efficiently. If we are not able to develop new products and services to keep pace with technological advances, or if those products and services are not widely accepted by customers, our ability to compete could be adversely affected and our market share could decline. Any inability to effectively respond to technological changes could also adversely affect our operating results and financial condition, as well as our ability to service debt and pay other obligations.

In addition to introducing new technologies and offerings, we may need, from time to time, to phase out outdated and unprofitable technologies and services. If we are unable to do so on a cost-effective basis, we could experience reduced profits.

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For additional information on the risks of increased expenditures, see “Risk Factors-Risks Affecting our Liquidity and Capital Resources-Our business requires us to incur substantial capital and operating expenses, which reduces our available free cash flow.”

***Our legacy services continue to experience declining revenues, and our efforts to offset these declines may not be successful.***

In recent years, the telephone industry has experienced a decline in access lines, long distance revenues and network access revenues, which, coupled with the other changes resulting from competitive, technological and regulatory developments, continue to place downward pressure on the revenues we generate from our legacy services.

We have taken a variety of steps to counter these declines, including:

- an increased focus on selling a broader range of higher-growth strategic services, which are described in detail elsewhere in this annual report;
- an increased focus on serving a broader range of business, governmental and wholesale customers;
- greater use of service bundles; and
- acquisitions to increase our scale and strengthen our product offerings, including new products and services provided by our data hosting segment.

However, some of these strategic services generate lower profit margins than our traditional services, and some can be expected to experience slowing growth as increasing numbers of our existing or potential customers subscribe to these newer products. Moreover, we cannot assure you that the revenues generated from our new offerings will offset revenue losses associated from reduced sales of our legacy products. Similarly, we cannot assure you that our new service offerings will be as successful as anticipated, or that we will be able to continue to grow through acquisitions. In addition, our reliance on third parties to provide certain of these strategic services could constrain our flexibility, as described further below.

***Our future results will suffer if we do not effectively adjust to changes in our business, and will further suffer if we do not effectively manage our expanded operations.***

The above-described changes in our industry have placed a higher premium on technological, engineering, marketing and provisioning skills. Our recent acquisitions also significantly changed the composition of our markets and product mix. Our future success depends, in part, on our ability to retrain our staff to acquire or strengthen skills necessary to address these changes, and, where necessary, to attract and retain new personnel that possess these skills. Given the current competitive market for personnel with these skills, we cannot assure you that these recruitment efforts will be successful.

***Unfavorable general economic conditions could negatively impact our operating results and financial condition.***

Unfavorable general economic conditions, including the unstable economy and credit market, could negatively affect our business. Worldwide economic growth has been sluggish since 2008, and many experts believe that a confluence of factors in the United States, Europe, Asia and developing countries may result in a prolonged period of economic stagnation, slow growth or economic uncertainty. While it is difficult to predict the ultimate impact of these general economic conditions, they could adversely affect demand for some of our products and services and could cause customers to shift to lower priced products and services or to delay or forego purchases of our products and services. These conditions impact, in particular, our ability to sell discretionary products or services to business customers that are under pressure to reduce costs or to governmental customers that have recently suffered substantial budget cuts with the prospect of additional future budget cuts. Any one or more of these circumstances could cause our revenues to continue declining. Also, our customers may encounter financial hardships or may not be able to obtain adequate access to credit, which could negatively impact their ability to make timely payments to us. In addition, as discussed further below, unstable economic and credit markets may preclude us from refinancing maturing debt at terms that are as favorable as those from which we previously benefited, at terms that are acceptable to us, or at all. For these reasons, among others, if current economic conditions persist or decline, our operating results, financial condition, and liquidity could be adversely affected.



[Table of Contents](#)***We could be harmed by security breaches, damages or other significant disruptions or failures of our networks, information technology infrastructure or related systems, or of those we operate for certain of our customers.***

To be successful, we will need to continue providing our customers with a high-capacity, reliable and secure network. We face the risk, as does any company, of a security breach or significant disruption of our information technology infrastructure and related systems (including our billing systems). As a communications and information technology company, we face an added risk that a security breach or other significant disruption of our public networks or information technology infrastructure and related systems that we develop, install, operate and maintain for certain of our business and governmental customers could lead to material interruptions or curtailments of service. Moreover, due to the nature of our customers and services, we face a heightened risk that a security breach or disruption could result in unauthorized access to our customers' proprietary or classified information on our public networks or internal systems or the systems that we operate and maintain for certain of our customers.

We make significant efforts to maintain the security and integrity of these types of information and systems and maintain contingency plans in the event of security breaches or other system disruptions. Nonetheless, we cannot assure you that our security efforts and measures will prevent unauthorized access to our systems, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses, malware, or other forms of cyber attacks or similar events. These threats may derive from human error, fraud, malice or sabotage on the part of employees, third parties or other nations, or could result from accidental technological failure. Similar to other large telecommunications companies, we have been subject to a variety of security breaches and cyber attacks, although to date none of these have resulted in a material adverse effect on our operating results or financial condition. We cannot assure you, however, that future security breaches or disruptions would not be successful or damaging, especially in light of the growing frequency, scope and sophistication of cyber attacks and intrusions. We may be unable to anticipate all potential types of attacks or intrusions or to implement adequate security barriers or other preventative measures, and any resulting damages could be material.

Additional risks to our network and infrastructure include:

- power losses or physical damage, whether caused by fire, adverse weather conditions, terrorism or otherwise;
- capacity or system configurance limitations;
- software and hardware obsolescence, defects or malfunctions;
- programming, processing and other human error; and
- other disruptions that are beyond our control.

Network disruptions, security breaches and other significant failures of the above-described systems could:

- disrupt the proper functioning of these networks and systems and therefore our operations or those of certain of our customers;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours, our customers or our customers' end users, including trade secrets, which others could use for competitive, disruptive, destructive or otherwise harmful purposes and outcomes;
- require significant management attention or financial resources to remedy the damages that result or to change our systems, including expenses to repair systems, add new personnel or develop additional protective systems;
- require us to offer expensive incentives to retain existing customers or subject us to claims for contract breach, damages, credits, fines, penalties, termination or other remedies, particularly with respect to service standards set by state regulatory commissions; or
- result in a loss of business, damage our reputation among our customers and the public generally, subject us to additional regulatory scrutiny or expose us to litigation.

Likewise, our ability to expand and update our information technology infrastructure in response to our growth and changing needs is important to the continued implementation of our new service offering initiatives. Our failure to expand or upgrade our technology infrastructure could have adverse consequences, which could include the delayed implementation of new service offerings, decreased competitiveness of existing service offerings, increased acquisition integration costs, service or billing interruptions, and the diversion of development resources.



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Any or all of the foregoing developments could have a negative impact on our results of operations, financial condition and cash flows.

***Increases in broadband usage may cause network capacity limitations, resulting in service disruptions, reduced capacity or slower transmission speeds for our customers.***

Video streaming services and peer-to-peer file sharing applications use significantly more bandwidth than traditional Internet activity such as web browsing and email. As use of these newer services continues to grow, our high-speed Internet customers will likely use much more bandwidth than in the past. If this occurs, we could be required to make significant capital expenditures to increase network capacity in order to avoid service disruptions, service degradation or slower transmission speeds for our customers. Alternatively, we could choose to implement network management practices to reduce the network capacity available to bandwidth-intensive activities during certain times in market areas experiencing congestion, which could negatively affect our ability to retain and attract customers in affected markets. While we believe demand for these services may drive high-speed Internet customers to pay for faster broadband speeds, we may not be able to recover the costs of the necessary network investments. This could result in an adverse impact to our operating margins, results of operations and financial condition.

***We may need to defend ourselves against claims that we infringe upon others' intellectual property rights, or we may need to seek third-party licenses to expand our product offerings.***

From time to time, we receive notices from third parties or are named in lawsuits filed by third parties claiming we have infringed or are infringing upon their intellectual property rights. We are currently responding to several of these notices and claims. Like other communications companies, we have received an increasing number of these notices and claims in the past several years, and expect this industry-wide trend will continue. Responding to these claims may require us to expend significant time and money defending our use of the applicable technology, and divert management's time and resources away from other business. In certain instances, we may be required to enter into licensing agreements requiring royalty payments or, in the case of litigation, to pay damages. If we are required to take one or more of these actions, our profit margins may decline. In addition, in responding to these claims, we may be required to stop selling or redesign one or more of our products or services, which could significantly and adversely affect our business practices, results of operations, and financial condition.

Similarly, from time to time, we may need to obtain the right to use certain patents or other intellectual property from third parties to be able to offer new products and services. If we cannot license or otherwise obtain rights to use any required technology from a third party on reasonable terms, our ability to offer new products and services may be prohibited, restricted, made more costly or delayed.

***Our operations, financial performance and liquidity are materially reliant on various third parties.***

**Reliance on other communications providers.** We rely on reseller and sales agency arrangements with other communications companies to provide some of the services that we sell to our customers, including video services and wireless products and services. If we fail to extend or renegotiate these arrangements as they expire from time to time or if these other companies fail to fulfill their contractual obligations to us or our customers, we may have difficulty finding alternative arrangements and our customers may experience disruptions to their services. In addition, as a reseller or sales agent, we do not control the availability, retail price, design, function, quality, reliability, customer service or branding of these products and services, nor do we directly control all of the marketing and promotion of these products and services. To the extent that these other companies make decisions that negatively impact our ability to market and sell their products and services, our business plans and goals and our reputation could be negatively impacted. If these reseller and sales agency arrangements are unsuccessful due to one or more of these risks, our business and operating results may be adversely affected.

To offer voice or data services in certain of our markets, we must either lease network capacity from, or interconnect our network with the infrastructure of, other communications companies who typically compete against us in those markets. Similar to the risks summarized in the prior paragraph, our reliance on these lease or interconnection arrangements limits our control over the quality of our services and exposes us to the risk that the other carrier may be unwilling to continue or renew these arrangements in the future on terms favorable to us, or at all.

Conversely, certain of our operations carry a significant amount of voice or data traffic for other communications providers. Their reliance on our services exposes us to the risk that they may transfer all or a portion of this traffic from our network to networks built, owned or leased by them, thereby reducing our revenues.

Our operations and financial performance could be adversely affected if our relationships with any of these other communications companies are disrupted or terminated for any other reason, including if such other companies:

- go bankrupt or experience substantial financial difficulties;

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- suffer work stoppages or other labor strife;
- challenge our right to receive payments or services under applicable regulations or the terms of our existing contract arrangements; or
- are otherwise unable or unwilling to make payments or provide services to us.

**Reliance on other key suppliers, vendors and landlords.** We depend on a limited number of suppliers and vendors for equipment and services relating to our network infrastructure. Our local exchange carrier networks consist of central office and remote sites, all with advanced digital switches. If any of these suppliers experience interruptions or other problems delivering or servicing these network components on a timely basis, our operations could suffer significantly. To the extent that proprietary technology of a supplier is an integral component of our network, we may have limited flexibility to purchase key network components from alternative suppliers and may be adversely affected if third parties assert patent infringement claims against our suppliers or us. Similarly, our data center operations are materially reliant on leasing significant amounts of space from landlords and substantial amounts of power from utility companies, and being able to renew these arrangements from time to time on favorable terms. In addition, we rely on a limited number of software vendors to support our business management systems. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement supplies, services, space or utilities on economically attractive terms, on a timely basis, or at all, which could increase costs or cause disruptions in our services.

**Reliance on governmental payments.** We receive a material amount of revenue or government subsidies under various government programs or our service contracts with federal, state and local agencies. Governmental agencies frequently reserve the right to terminate their contacts for convenience, or to suspend or debar companies from receiving future subsidies or contracts under certain circumstances. If our governmental contacts are terminated for any reason, or if we are suspended or debarred from governmental programs or contacts, our results of operations and financial condition could be materially adversely affected.

**Reliance on financial institutions.** We rely on 18 financial institutions to provide us with short-term liquidity under our credit facility. If one or more of these lenders default on their funding commitments, our access to revolving credit could be adversely affected.

***Consolidation among other participants in the communications industry may allow our competitors to compete more effectively against us, which could adversely affect our operating results and financial condition.***

The telecommunications and cable industries have experienced substantial consolidation over the last couple of decades, and some of our competitors have combined with other communications providers, resulting in larger competitors that have greater financial and business resources and broader service offerings. Further consolidation could increase competitive pressures, and could adversely affect our operating results and financial condition, as well as our ability to service debt and pay other obligations.

***If we fail to extend or renegotiate our collective bargaining agreements with our labor unions as they expire from time to time, or if our unionized employees were to engage in a strike or other work stoppage, our business and operating results could be materially harmed.***

Approximately 36% of our employees are members of various bargaining units represented by the Communications Workers of America or the International Brotherhood of Electrical Workers. From time to time, our labor agreements with unions expire and we typically negotiate the terms of new bargaining agreements. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services and result in increased cost to us. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. To the extent they contain benefit provisions, these agreements may also limit our flexibility to change benefits in response to industry or competitive changes. In particular, the post-employment benefits provided under these agreements could cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

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***We have a significant amount of goodwill and other intangible assets on our balance sheet. If our goodwill or other intangible assets become impaired, we may be required to record a significant charge to earnings and reduce our stockholders' equity.***

Over 55% of our total consolidated assets reflected on the balance sheet included in this annual report consist of goodwill or other intangible assets. Under generally accepted accounting principles, most of these intangible assets must be tested for impairment on an annual basis or more frequently whenever events or circumstances indicate that their carrying value may not be recoverable. From time to time (most recently for the third quarter of 2013), we or our predecessors have recorded large non-cash charges to earnings in connection with required reductions of the value of our intangible assets. If our intangible assets are determined to be impaired in the future, we may be required to record additional significant, non-cash charges to earnings during the period in which the impairment is determined.

***We cannot assure you that we will be able to continue paying dividends at the current rate.***

Decisions on whether, when and in which amounts to make any future dividend distributions will remain at all times entirely at the discretion of our Board of Directors, which reserves the right to change or terminate our dividend practices at any time and for any reason. Based on current circumstances, we plan to continue our current dividend practices. However, you should be aware that these practices are reviewed periodically and are subject to change for reasons that may include any of the following factors:

- we may not have enough cash to pay such dividends due to changes in our cash requirements, capital spending plans, stock repurchase plans, cash flows or financial position;
- the effects of regulatory reform, including any changes to intercarrier compensation, Universal Service Fund or special access rules;
- our desire to maintain or improve the credit ratings on our debt;
- the amount of dividends that we may distribute to our shareholders is subject to restrictions under Louisiana law and is limited by restricted payment and leverage covenants in our credit facilities and, potentially, the terms of any future indebtedness that we may incur; and
- the amount of dividends that our subsidiaries may distribute to us is subject to restrictions imposed by state law, restrictions that have been or may be imposed by state regulators in connection with obtaining necessary approvals for our acquisitions, and restrictions imposed by the terms of credit facilities applicable to certain subsidiaries and, potentially, the terms of any future indebtedness that these subsidiaries may incur.

Our Board of Directors is free to change or suspend our dividend practices at any time. Our common shareholders should be aware that they have no contractual or other legal right to dividends.

***Our current dividend practices could limit our ability to deploy cash for other beneficial purposes.***

The current practice of our Board of Directors to pay common share dividends reflects an intention to distribute to our shareholders a substantial portion of our cash flow. As a result, we may not retain a sufficient amount of cash to apply to other transactions that could be beneficial to our shareholders or debtholders, including stock buybacks, debt prepayments or capital expenditures that strengthen our business. In addition, our ability to pursue any material expansion of our business through acquisitions or increased capital spending will depend more than it otherwise would on our ability to obtain third party financing. We cannot assure you that such financing will be available to us at terms that are as favorable as those from which we previously benefited, at terms that are acceptable to us, or at all.

***Portions of our property, plant and equipment are located on property owned by third parties.***

Over the past few years, certain utilities, cooperatives and municipalities in certain of the states in which we operate have requested significant rate increases for attaching our plant to their facilities. To the extent that these entities are successful in increasing the amount we pay for these attachments, our future operating costs will increase.

In addition, we rely on rights-of-way, colocation agreements and other authorizations granted by governmental bodies and other third parties to locate our cable, conduit and other network equipment on their respective properties. If any of these authorizations terminate or lapse, our operations could be adversely affected.

[Table of Contents](#)***We depend on key members of our senior management team.***

Our success depends largely on the skills, experience and performance of a limited number of senior officers. Competition for senior management in our industry is intense and we may have difficulty retaining our current senior officers or attracting new ones in the event of terminations or resignations. For a discussion of similar retention concerns relating to our recent acquisitions, please see the risks described below under the heading “Risk Factors-Risks Relating to our Recent Acquisitions.”

***As a holding company, we rely on payments from our operating companies to meet our obligations.***

As a holding company, substantially all of our income and operating cash flow is dependent upon the earnings of our subsidiaries and their distribution of those earnings to us in the form of dividends, loans or other payments. As a result, we rely upon our subsidiaries to generate the funds necessary to meet our obligations, including the payment of amounts owed under our long-term debt. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts owed by us or, subject to limited exceptions for tax-sharing or cash management purposes, to make any funds available to us to repay our obligations, whether by dividends, loans or other payments. State law applicable to each of our subsidiaries restricts the amount of dividends that they may pay. Restrictions that have been or may be imposed by state regulators (either in connection with obtaining necessary approvals for our acquisitions or in connection with our regulated operations), and restrictions imposed by credit agreements applicable to certain of our subsidiaries may limit the amount of funds that our subsidiaries are permitted to transfer to us, including the amount of dividends that may be paid to us. Moreover, our rights to receive assets of any subsidiary upon its liquidation or reorganization will be effectively subordinated to the claims of creditors of that subsidiary, including trade creditors. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources” included elsewhere in this annual report for further discussion of these matters.

**Risks Relating to our Recent Acquisitions*****We may be unable to integrate successfully our recently-acquired operations and realize the anticipated benefits of our recent acquisitions.***

We acquired Embarq, Qwest and Savvis during a roughly 24-month period between mid-2009 to mid-2011. These acquisitions involved the combination of companies which previously operated as independent public companies. We have devoted, and will continue to devote, significant management attention and resources to integrating the business practices and operations of Legacy CenturyLink and the acquired companies. We may encounter difficulties in the integration process, including the following:

- the inability to successfully combine our businesses in a manner that permits the combined company to achieve the cost savings and operating synergies anticipated to result from the acquisitions, either due to technological challenges, personnel shortages, strikes or otherwise, any of which would result in the anticipated benefits of the acquisitions not being realized partly or wholly in the time frame anticipated or at all;
- delays or limitations in connection with offering new products or providing current ones arising out of the multiplicity of different legacy systems, network and processes used by each of the companies;
- the complexities associated with managing the combined businesses out of several different locations and integrating personnel from multiple companies, while at the same time attempting to provide consistent, high-quality products and services under a unified culture;
- the difficulties of producing combined financial information using dispersed personnel with different past practices, including the attendant risk of errors;
- the complexities of combining companies with different histories, regulatory restrictions, cost structures, products, sales forces, markets, marketing strategies, and customer bases;
- the failure to retain key employees, some of whom could be critical to integrating, operating or expanding the companies;
- potential unknown liabilities and unforeseen increased expenses or regulatory conditions associated with the acquisitions; and
- performance shortfalls at one or all of the companies as a result of the diversion of management’s attention caused by integrating the companies’ operations.

In the last couple of years we have purchased several other businesses to augment our data hosting segment. Integrating these newly-acquired businesses into our data hosting operations will give rise to similar challenges and risks.

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As discussed further under “Business-Network Architecture,” we are currently undertaking several complex, costly and time-consuming projects to simplify and modernize our network, which is an amalgam of our legacy network and the networks of companies we have acquired in the past.

For all these reasons, you should be aware that our remaining efforts to integrate these companies and businesses could distract our management, disrupt our ongoing business or create inconsistencies in our products, services, standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers, vendors and employees or to achieve the anticipated benefits of our recent acquisitions, or could otherwise adversely affect our business and financial results.

***We may be unable to successfully adjust to the substantial change in our markets and operations caused by our recent acquisitions.***

Prior to our acquisition of Embarq, we provided principally local exchange and internet services to consumers in predominantly rural areas and small to mid-sized cities in 25 states. As a result of our recent acquisitions, we now provide a diversified array of communications services to residential, business, governmental and wholesale customers in a wide range of markets throughout the United States and internationally. While we believe we have adequately adjusted our strategies, management, operating models and organizational structures to address these changes, we cannot assure you that further adjustments will not be required in the future.

***Our acquisitions of Qwest and Savvis have increased our exposure to the risks of operating internationally.***

Prior to 2011, substantially all of our operations were historically conducted within the continental United States. Our acquisitions of Qwest and Savvis in 2011 increased the importance of international operations to our future operations, growth and prospects.

Our foreign operations are subject to varying degrees of regulation in each of the foreign jurisdictions in which we provide services. Local laws and regulations, and their interpretation and enforcement, differ significantly among those jurisdictions, and can change significantly over time. Future regulatory, judicial and legislative changes or interpretations may have a material adverse effect on our ability to deliver services within various foreign jurisdictions. Many of these foreign laws and regulations relating to communications services are more restrictive than U.S. laws and regulations, particularly those relating to content distributed over the Internet. For example, the European Union has enacted a data retention system that, once implemented by individual member states, will involve requirements to retain certain Internet protocol, or IP, data that could have an impact on our operations in Europe. Moreover, national regulatory frameworks that are consistent with the policies and requirements of the World Trade Organization have only recently been, or are still being, enacted in many countries. Accordingly, many countries are still in the early stages of providing for and adapting to a liberalized telecommunications market. As a result, in these markets we may encounter more protracted and difficult procedures to obtain licenses necessary to provide the full set of products we offer.

In addition to these international regulatory risks, some of the other risks inherent in conducting business internationally include:

- tax, licensing, currency, political or other business restrictions or requirements;
- import and export restrictions;
- longer payment cycles and problems collecting accounts receivable;
- additional U.S. and other regulation of non-domestic operations, including regulation under the Foreign Corrupt Practices Act, or FCPA, as well as other anti-corruption laws;
- economic, social and political instability, with the attendant risks of terrorism, kidnapping, extortion, civic unrest and potential seizure or nationalization of assets;
- fluctuations in currency exchange rates;
- the ability to secure and maintain the necessary physical and telecommunications infrastructure;
- the inability to enforce contract rights either due to underdeveloped legal systems or government actions that result in a deprivation of contract rights;
- laws, policies or practices that limit the scope of operations that can legally or practicably be conducted within any particular country; and

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- challenges in staffing and managing foreign operations.

Any one or more of these factors could adversely affect our international operations.

Moreover, in order to effectively compete in certain foreign jurisdictions, it is frequently necessary or required to establish joint ventures, strategic alliances or marketing arrangements with local operators, partners or agents. Reliance on local operators, partners or agents could expose us to the risk of being unable to control the scope or quality of our overseas services or products, or being held liable under the FCPA or other anti-corruption laws for actions taken by our strategic or local partners or agents even though these partners or agents may not themselves be subject to the FCPA or other applicable anti-corruption laws. Any determination that we have violated the FCPA or other anti-corruption laws could have a material adverse effect on our business, results of operations, reputation or prospects.

***We expect to incur substantial expenses related to the completion of the integration of Qwest.***

We have incurred, and expect to continue to incur, substantial expenses in connection with the integration of Qwest's business, operations, networks, systems, technologies, policies and procedures with our own. We have integrated a number of our systems, and we continue to work towards completing the planned integration of our remaining systems. Until this integration is completed, we cannot accurately predict the total amount or the timing of our integration expenses.

***Our acquisitions have increased our exposure to the risks of fluctuations in energy costs, power outages and availability of electrical resources.***

Through the acquisitions of Qwest and Savvis, we have added a significant number of data center facilities, which are susceptible to regional costs and supply of power and electrical power outages. In addition, our energy costs can fluctuate significantly or increase for a variety of reasons, including changes in legislation and regulation. Several pending proposals designed to reduce greenhouse emissions could substantially increase our energy costs. As energy costs increase, we may not always be able to pass on the increased costs of energy to our clients, which could harm our business. Our clients' demand for power may also exceed the power capacity in older data centers, which may limit our ability to fully utilize these data centers. Moreover, the increasing power demands of today's servers may cause our demand for power in certain of our data centers to exceed the supply available from third parties. Any one or more of these developments could adversely affect our relationships with our clients and hinder our ability to run our data centers, which could harm our business.

***Our inability to renew data center leases, on favorable terms or at all, could have a negative impact on our financial results.***

A significant majority of the data centers we acquired in the Qwest and Savvis acquisitions are leased and have lease terms that expire between 2013 and 2031. The majority of these leases provide us with the opportunity to renew the lease at our option for periods generally ranging from five to ten years. Many of these renewal options, however, provide that rent for the renewal period will be equal to the fair market rental rate at the time of renewal. If the fair market rental rates are significantly higher than our current rental rates, we may be unable to offset these costs by charging more for our services, which could have a negative impact on our financial results. Also, it is possible that a landlord may insist on other financially unfavorable renewal terms or, where no further option to renew exists, elect not to renew altogether.

***Any additional future acquisitions by us would subject us to additional business, operating and financial risks, the impact of which cannot presently be evaluated, and could adversely impact our capital structure or financial position.***

From time to time in the future we may pursue other acquisition opportunities. To the extent we acquire a business that is highly leveraged or is otherwise subject to a high level of risk, we may be affected by the currently unascertainable risks of that business. In addition, the financing of any future acquisition completed by us could adversely impact our capital structure or financial position, as any such financing would likely include the issuance of additional securities or the borrowing of additional funds. Except as required by law or applicable securities exchange listing standards, we do not expect to ask our shareholders to vote on any proposed acquisition. Moreover, we generally do not announce our acquisitions until we have entered into a preliminary or definitive agreement.

**Risks Relating to Legal and Regulatory Matters**

***Any adverse outcome of the KPNQwest litigation, or other material litigation of Qwest, Savvis or CenturyLink, could have a material adverse impact on our financial condition and operating results, on the trading price of our securities and on our ability to access the capital markets.***

As described in Note 15-Commitments and Contingencies to our consolidated financial statements included elsewhere in this annual report, the KPNQwest lawsuit brought against us by Cargill Financial Markets, Plc and Citibank, N.A. presents significant risk to us. The plaintiffs seek hundreds of millions of dollars in damages. We continue to vigorously defend the company in that lawsuit.

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We are currently unable to provide an estimate as to the timing of the resolution of this matter. We can give no assurance as to the impacts on our financial results or financial condition that may ultimately result from the Cargill/Citibank lawsuit. The ultimate outcome remains uncertain, and a substantial settlement or judgment in this matter could have a significant impact on us. The magnitude of such a settlement or judgment could materially and adversely affect our financial condition and ability to meet our debt obligations, potentially impacting our credit ratings, our ability to access capital markets and our compliance with debt covenants. In addition, the magnitude of a settlement or judgment may cause us to draw down significantly on our cash balances, which might force us to obtain additional financing or explore other methods to generate cash. Such methods could include issuing additional debt securities or selling assets.

There are other material proceedings pending against us, as described in the above-referenced Note 15. Depending on their outcome, any of these matters could have a material adverse effect on our financial position or operating results. We can give you no assurances as to the impact of these matters on our operating results or financial condition.

***We operate in a highly regulated industry and are therefore exposed to restrictions on our operations and a variety of claims relating to such regulation.***

**General.** We are subject to significant regulation by (i) the Federal Communications Commission (“FCC”), which regulates interstate communications, (ii) state utility commissions, which regulate intrastate communications, and (iii) various foreign governments and international bodies, which regulate our international operations. Generally, we must obtain and maintain certificates of authority or licenses from these bodies in most territories where we offer regulated services. We cannot assure you that we will be successful in obtaining or retaining all licenses necessary to carry out our business plan, and, even if we are, the prescribed service standards and conditions imposed on us in connection with obtaining or acquiring control of these licenses may impose on us substantial costs and limitations. We are also subject to numerous requirements and interpretations under various international, federal, state and local laws, rules and regulations, which are often quite detailed and occasionally in conflict with each other. Accordingly, we cannot ensure that we are always considered to be in compliance with all these requirements at any single point in time. The agencies responsible for the enforcement of these laws, rules and regulations may initiate inquiries or actions based on customer complaints or on their own initiative.

Regulation of the telecommunications industry continues to change rapidly, and the regulatory environment varies substantially from jurisdiction to jurisdiction. Notwithstanding a recent movement towards alternative regulation, a substantial portion of our local voice services revenue remains subject to FCC and state utility commission pricing regulation, which periodically exposes us to pricing or earnings disputes and could expose us to unanticipated price declines. Interexchange carriers have filed complaints in various forums requesting reductions in our access rates. In addition, several long distance providers are disputing or refusing to pay amounts owed to us for carrying Voice over Internet Protocol (“VoIP”) traffic, or traffic they claim to be VoIP traffic. There can be no assurance that future regulatory, judicial or legislative activities will not have a material adverse effect on our operations, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations.

**Risks associated with recent changes in federal regulation.** On October 27, 2011, the FCC adopted the Connect America and Intercarrier Compensation Reform order (“CAF order”) intended to reform the existing regulatory regime to recognize ongoing shifts to new technologies, including VoIP, and gradually re-direct federal universal service funding to foster nationwide broadband coverage. This initial ruling provides for a multi-year transition over the next decade as intercarrier compensation charges are reduced, federal universal service funding is explicitly targeted to broadband deployment, and subscriber line charges paid by end-user customers are gradually increased. We expect these changes will substantially increase the pace of reductions in the amount of switched access revenues we receive in our wholesale business, while creating opportunities for increases in federal Universal Service Fund (“USF”) and retail revenue streams. Several judicial challenges to the CAF order are pending and additional future challenges are possible, any of which could alter or delay the FCC’s proposed changes. In addition, based on the outcome of the FCC proceedings, various state commissions may consider changes to their universal service funds or intrastate access rates. Moreover, rulemaking designed to implement the CAF order is not complete, and several FCC proceedings relating to the order remain pending. For these and other reasons, we cannot predict the ultimate impact of these proceedings at this time.

In addition, during the last few years Congress or the FCC has initiated various other changes, including (i) broadband stimulus projects, support funds and similar plans and (ii) new “network neutrality” rules. The FCC is also considering changes in the regulation of special access services. Any of these recent or pending initiatives could adversely affect our operations or financial results. Moreover, many of the FCC’s regulations adopted in recent years remain subject to judicial review and additional rulemakings, thus increasing the difficulty of determining the ultimate impact of these changes on us and our competitors.



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**Risks of higher costs.** Regulations continue to create significant costs for us. Challenges to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, such challenges could adversely affect the rates that we are able to charge our customers.

Our business also may be impacted by legislation and regulation imposing new or greater obligations related to regulations or laws related to broadband deployment, bolstering homeland security or cyber security, increasing disaster recovery requirements, minimizing environmental impacts, enhancing privacy, protecting intellectual property rights of third parties, or addressing other issues that impact our business, including the Communications Assistance for Law Enforcement Act (which requires communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance), and laws governing local number portability and customer proprietary network information requirements. We expect our compliance costs to increase if future laws or regulations continue to increase our obligations to assist other governmental agencies.

In addition, increased regulation of our suppliers could increase our costs. For instance, if enhanced regulation of greenhouse gas emissions increase our energy costs, the profitability of our data hosting and other operations could be adversely affected.

**Risks of reduced flexibility.** As a diversified full service incumbent local exchange carrier in most of our key markets, we have traditionally been subject to significant regulation that does not apply to many of our competitors. This regulation in many instances restricts our ability to change rates, to compete and to respond rapidly to changing industry conditions. As our business becomes increasingly competitive, regulatory disparities between us and our competitors could impede our ability to compete.

**Risks posed by other regulations.** All of our operations are also subject to a variety of environmental, safety, health and other governmental regulations. We monitor our compliance with federal, state and local regulations governing the management, discharge and disposal of hazardous and environmentally sensitive materials. Although we believe that we are in compliance with these regulations, our management, discharge or disposal of hazardous and environmentally sensitive materials might expose us to claims or actions that could have a material adverse effect on our business, financial condition and operating results.

***“Net neutrality” legislation or regulation could limit our ability to operate our high-speed data business profitably and to manage our broadband facilities efficiently.***

In order to continue to provide quality high-speed data service at attractive prices, we believe we need the continued flexibility to respond to changing consumer demands, to manage bandwidth usage efficiently and to invest in our networks. In 2010, the FCC adopted “net neutrality” regulations that curtailed our operational flexibility. Although a federal appeals court vacated these rules in January 2014, the FCC or Congress could adopt similar measures in the future. Any such measures could adversely impact our ability to operate our high-speed data network profitably and to implement the upgrades and network management practices that may be needed to continue to provide high quality high-speed data services, and could therefore negatively impact our ability to compete effectively.

***We may be liable for the material that content providers distribute over our network.***

Although we believe our liability for third party information carried on, stored or disseminated through our networks is limited, the law relating to the liability of private network operators, such as us, is not entirely clear. As such, we could be exposed to legal claims relating to third party content disseminated on our networks. Claims could challenge the accuracy of materials on our network, or could involve matters such as defamation, invasion of privacy or copyright infringement. If we need to take costly measures to reduce our exposure to these risks, or are required to defend ourselves against such claims, our financial results could be negatively affected.

***We are subject to franchising requirements that could impede our expansion opportunities.***

We may be required to obtain from municipal authorities operating franchises to install or expand facilities. Some of these franchises may require us to pay franchise fees. These franchising requirements generally apply to our fiber transport and competitive local exchange carrier operations, and to our facilities-based video services. These requirements could delay us in expanding our operations or increase the costs of providing these services.



[Table of Contents](#)***We are exposed to risks arising out of recent legislation affecting U.S. public companies.***

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, and related regulations implemented thereunder, are increasing legal and financial compliance costs and making some activities more time consuming. Any failure to successfully or timely complete annual assessments of our internal controls required by Section 404 of the Sarbanes-Oxley Act could subject us to sanctions or investigation by regulatory authorities. Any such action could adversely affect our financial results or our reputation with investors, lenders or others.

For a more thorough discussion of the regulatory issues that may affect our business, see “Regulation” in Item 1 of Part I of this annual report.

**Risks Affecting our Liquidity and Capital Resources*****Our high debt levels pose risks to our viability and may make us more vulnerable to adverse economic and competitive conditions, as well as other adverse developments.***

We continue to carry significant debt. As of December 31, 2013, our consolidated debt was approximately \$21.0 billion. Approximately \$2.6 billion of our consolidated debt securities come due over the 36 months following the date of this annual report.

Our significant levels of debt can adversely affect us in several other respects, including:

- limiting the ability of CenturyLink and its subsidiaries to access the capital markets;
- exposing CenturyLink and its subsidiaries to the risk of credit rating downgrades, as described further below;
- hindering our flexibility to plan for or react to changing market, industry or economic conditions;
- limiting the amount of cash flow available for future operations, acquisitions, dividends, stock repurchases or other uses;
- making us more vulnerable to economic or industry downturns, including interest rate increases;
- placing us at a competitive disadvantage compared to less leveraged competitors;
- increasing the risk that we will need to sell securities or assets, possibly on unfavorable terms, or reduce or terminate our dividend payments, to meet payment obligations; or
- increasing the risk that we may not meet the financial covenants contained in our debt agreements or timely make all required debt payments.

The effects of each of these factors could be intensified if we increase our borrowings.

Any failure to make required debt payments could, among other things, adversely affect our ability to conduct operations or raise capital.

***We expect to periodically require financing, and we cannot assure you that we will be able to obtain such financing on terms that are acceptable to us, or at all.***

We have a significant amount of indebtedness that we intend to refinance over the next several years, principally through the issuance of debt securities of CenturyLink, Qwest Corporation or both. Our ability to arrange additional financing will depend on, among other factors, our financial position, performance, and credit ratings, as well as prevailing market conditions and other factors beyond our control. Prevailing market conditions could be adversely affected by disruptions in domestic or overseas sovereign debt markets, contractions or limited growth in the economy or other similar adverse economic developments in the U.S. or abroad. Instability in the global financial markets has from time to time resulted in periodic volatility in the capital markets. This volatility could limit our access to the credit markets, leading to higher borrowing costs or, in some cases, the inability to obtain financing on terms that are as favorable as those from which we previously benefitted, on terms that are acceptable to us, or at all. Any such failure to obtain additional financing could jeopardize our ability to repay, refinance or reduce our debt obligations.

We may also need to obtain additional financing under a variety of other circumstances, including if:

- revenues and cash provided by operations decline;
- economic conditions weaken, competitive pressures increase or regulatory requirements change;

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- we engage in any acquisitions or undertake substantial capital projects or other initiatives that increase our cash requirements;
- we are required to contribute a material amount of cash to our pension plans;
- we are required to begin to pay other post-retirement benefits earlier than anticipated;
- our payments of federal taxes increase faster or in greater amounts than currently anticipated; or
- we become subject to significant judgments or settlements in one or more of the matters discussed in Note 15-Commitments and Contingencies to our consolidated financial statements included elsewhere in this annual report.

For all the reasons mentioned in the prior paragraph, we can give no assurance that additional financing for any of these purposes will be available on terms that are acceptable to us or at all.

In addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our credit facilities and other debt agreements. If we are unable to satisfy the financial covenants contained in those agreements, or are unable to generate cash sufficient to make required debt payments, the parties to whom we are indebted could accelerate the maturity of some or all of our outstanding indebtedness. Certain of our debt instruments have cross payment default or cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources” elsewhere in this annual report for additional information about our credit facility.

If we are unable to make required debt payments or refinance our debt, we would likely have to consider other options, such as selling assets, issuing additional securities, reducing or terminating our dividend payments, cutting costs or otherwise reducing our cash requirements, or negotiating with our lenders to restructure the applicable debt. Our credit agreement and the indentures governing our senior notes may restrict, or market or business conditions may limit, our ability to do some of these things on favorable terms or at all.

***Any downgrade in the credit ratings of us or our affiliates could limit our ability to obtain future financing, increase our borrowing costs and adversely affect the market price of our existing debt securities or otherwise impair our business, financial condition and results of operations.***

Nationally recognized credit rating organizations have issued credit ratings relating to our long-term debt and the long-term debt of several of our subsidiaries that are below “investment grade.” There can be no assurance that any rating assigned to any of these debt securities will remain in effect for any given period of time or that any such ratings will not be lowered, suspended or withdrawn entirely by a rating agency if, in that rating agency’s judgment, circumstances so warrant.

A downgrade of any of these credit ratings could:

- adversely affect the market price of some or all of our outstanding debt or equity securities;
- limit our access to the capital markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all;
- trigger the application of restrictive covenants in certain of our debt agreements or result in new or more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur;
- increase our cost of borrowing; and
- impair our business, financial condition and results of operations.

***Under certain circumstances upon a change of control, we will be obligated to offer to repurchase certain of our outstanding debt securities, which could have certain adverse ramifications.***

If the credit ratings relating to certain of our long-term debt securities are downgraded in the manner specified thereunder in connection with a “change of control” of CenturyLink, then we will be required to offer to repurchase such debt securities. If, due to lack of cash, legal or contractual impediments, or otherwise, we fail to offer to repurchase such debt securities, such failure could constitute an event of default under such debt securities, which could in turn constitute a default under other of our agreements relating to our indebtedness outstanding at that time. Moreover, the existence of these repurchase covenants may in certain circumstances make it more difficult or discourage a sale or takeover of us, or the removal of our incumbent directors.

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***Our debt agreements and the debt agreements of our subsidiaries allow us to incur significantly more debt, which could exacerbate the other risks described in this annual report.***

The terms of our debt instruments and the debt instruments of our subsidiaries permit additional indebtedness. Additional debt may be necessary for many reasons, including those discussed above. Incremental borrowings that impose additional financial risks could exacerbate the other risks described in this annual report.

***Our business requires us to incur substantial capital and operating expenses, which reduce our available free cash flow.***

Our business is capital intensive, and we anticipate that our capital requirements will continue to be significant in the coming years. As discussed further under “Risk Factors-Risks Affecting Our Business-Increases in broadband usage may cause network capacity limitations, resulting in service disruptions, reduced capacity or slower transmission speeds for our customers,” increased bandwidth consumption by consumers and businesses have placed increased demands on the transmission capacity of our networks. If we determine that our networks must be expanded to handle these increased demands, we may be required to make substantial capital expenditures, even though there is no assurance that the return on our investment will be satisfactory. In addition, many of our growth and modernization initiatives are capital intensive and changes in technology could require further spending. In addition to investing in expanded networks, new products or new technologies, we must from time to time replace some of the equipment that supports our traditional services as that equipment ages, even though the revenue base from those services is not growing. While we believe that our planned level of capital expenditures will meet both our maintenance and core growth requirements, this may not be the case if demands on our network continue to accelerate or other circumstances underlying our expectations change. Increased spending could, among other things, adversely affect our operating margins, cash flows, results of operations and financial position. Similarly, we continue to anticipate incurring substantial operating expenses to support our incumbent services and growth initiatives.

***We cannot assure you whether, when or in what amounts we will be able to use our net operating losses, or when they will be depleted.***

At December 31, 2013, we had approximately \$2.9 billion of federal net operating losses, or NOLs, which relate primarily to pre-acquisition losses of Qwest. Under certain circumstances, these NOLs can be used to offset our future federal and certain taxable income.

The acquisitions of Qwest and Savvis caused “ownership changes” under federal tax laws relating to the use of NOLs. As a result, these laws could limit our ability to use these NOLs and certain other deferred tax attributes. Further limitations could apply if we are deemed to undergo an ownership change in the future. Despite this, we expect to use substantially all of these NOLs and certain other deferred tax attributes as an offset to our federal future taxable income by 2015, although the timing of that use will depend upon the consolidated group’s future earnings and future tax circumstances. If and when our NOLs are fully utilized, we expect that the amount of our cash flow dedicated to the payment of federal taxes will increase substantially.

***Increases in costs for pension and healthcare benefits for our active and retired employees may reduce our profitability and increase our funding commitments.***

With approximately 47,000 current employees, and approximately 66,000 pension retirees and approximately 35,000 former employees with vested benefits as of December 31, 2013 participating in our benefit plans, the costs of pension and healthcare benefits for our active and retired employees have a significant impact on our profitability. Our costs of maintaining our pension and healthcare plans, and the future funding requirements for these plans, are affected by several factors, most of which are outside our control, including:

- decreases in investment returns on funds held by our pension and other benefit plan trusts;
- changes in prevailing interest rates and the discount rate used to calculate pension and other post-retirement expenses;
- increases in healthcare costs generally or claims submitted under our healthcare plans specifically;
- the continuing implementation of the Patient Protection and Affordable Care Act, and the related reconciliation act and regulations promulgated thereunder;
- increases in the number of retirees who elect to receive lump sum benefit payments;
- changes in plan benefits; and
- changes in funding laws or regulations.

Increased costs under these plans could reduce our profitability and increase our funding commitments to our pension plans. Any future material cash contributions could have a negative impact on our liquidity by reducing our cash flows.

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As of December 31, 2013, our pension plans and our other post-retirement benefit plans were substantially underfunded from an accounting standpoint. See Note 8-Employee Benefits to our consolidated financial statements included elsewhere in this annual report. For more information on our obligations under our defined benefit pension plans and other post-retirement benefit plans, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Pension and Post-retirement Benefit Obligations” included elsewhere in this annual report.

### **Other Risks**

***If conditions or assumptions differ from the judgments, assumptions or estimates used in our critical accounting policies, our consolidated financial statements and related disclosures could be materially affected.***

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make judgments, assumptions and estimates that affect the amounts reported in such financial statements and accompanying notes. Our critical accounting policies, which are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates” in Item 7 of Part II of this Annual Report on Form 10-K, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that are considered “critical” because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events or assumptions differ significantly from the judgments, assumptions and estimates in our critical accounting policies, these events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

***We face hurricane and other natural disaster risks, which can disrupt our operations and cause us to incur substantial additional capital and operating costs.***

A substantial number of our facilities are located in Florida, Alabama, Louisiana, Texas, North Carolina, South Carolina and other coastal states, which subjects them to the risks associated with severe tropical storms, hurricanes and tornadoes, including downed telephone lines, flooded facilities, power outages, fuel shortages, damaged or destroyed property and equipment, and work interruptions. Although we maintain property and casualty insurance on our plant (excluding our outside plant) and may under certain circumstances be able to seek recovery of some additional costs through increased rates, only a portion of our additional costs directly related to such hurricanes and natural disasters have historically been recoverable. We cannot predict whether we will continue to be able to obtain insurance for hazard-related damages or, if obtainable and carried, whether this insurance will be adequate to cover our losses. In addition, we expect any insurance of this nature to be subject to substantial deductibles and to provide for premium adjustments based on claims. Any future hazard-related costs and work interruptions could adversely affect our operations and our financial condition.

***Tax audits or changes in tax laws could adversely affect us.***

Like all large businesses, we are subject to frequent and regular audits by the Internal Revenue Service as well as state and local tax authorities. These audits could subject us to tax liabilities if adverse positions are taken by these tax authorities.

We believe that we have adequately provided for tax contingencies. However, our tax audits and examinations may result in tax liabilities that differ materially from those that we have recognized in our consolidated financial statements. Because the ultimate outcomes of all of these matters are uncertain, we can give no assurance as to whether an adverse result from one or more of them will have a material effect on our financial results.

Effective for tax years beginning after 2012, The Taxpayer Relief Act of 2012 results in certain high-income taxpayers being subject to increased tax rates on dividends and capital gains. Additionally, these high-income taxpayers are also subject to a 3.8% Medicare tax on net investment income. These or other potential increases in tax rates could reduce demand for our stock, which could potentially depress its trading price.

***Our agreements and organizational documents and applicable law could limit another party’s ability to acquire us.***

A number of provisions in our agreements and organizational documents and various provisions of applicable law may delay, defer or prevent a future takeover of CenturyLink unless the takeover is approved by our Board of Directors. For additional information, please see our Registration Statement on Form 8-A/A filed with the SEC July 1, 2009. This could deprive our shareholders of any related takeover premium.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 27, 2014	<b>CenturyLink, Inc.</b> By: <u>/s/ David D. Cole</u> David D. Cole Executive Vice President, Controller and Operations Support (Chief Accounting Officer)
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Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

/s/ Glen F. Post, III Glen F. Post, III	Chief Executive Officer, President and Director	February 27, 2014
/s/ William A. Owens William A. Owens	Chairman of the Board	February 27, 2014
/s/ R. Stewart Ewing, Jr. R. Stewart Ewing, Jr.	Executive Vice President, Chief Financial Officer and Assistant Secretary	February 27, 2014
/s/ David D. Cole David D. Cole	Executive Vice President, Controller and Operations Support	February 27, 2014
/s/ Virginia Boulet Virginia Boulet	Director	February 27, 2014
/s/ Peter C. Brown Peter C. Brown	Director	February 27, 2014
/s/ Richard A. Gephardt Richard A. Gephardt	Director	February 27, 2014
/s/ W. Bruce Hanks W. Bruce Hanks	Director	February 27, 2014
/s/ Gregory J. McCray Gregory J. McCray	Director	February 27, 2014
/s/ C. G. Melville, Jr. C. G. Melville, Jr.	Director	February 27, 2014

<hr/> /s/ Fred R. Nichols	Director	February 27, 2014
Fred R. Nichols		
<hr/> /s/ Harvey P. Perry	Director	February 27, 2014
Harvey P. Perry		
<hr/> /s/ Michael J. Roberts	Director	February 27, 2014
Michael J. Roberts		
<hr/> /s/ Laurie A. Siegel	Director	February 27, 2014
Laurie A. Siegel		
<hr/> /s/ Joseph R. Zimmer	Director	February 27, 2014
Joseph R. Zimmer		